

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Utility Services of Illinois, Inc.	:	
	:	14-0741
Proposed Rate Increase for Water	:	
and Sewer Service.	:	

**POSITION STATEMENT OF THE STAFF
OF THE ILLINOIS COMMERCE COMMISSION**

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Staff of the Illinois Commerce Commission (“Staff”), by and through its counsel, pursuant to the direction of the Administrative Law Judges (“ALJ”) respectfully submits its Position Statement in the above-captioned matter.

I. INTRODUCTION

A. Procedural History

On November 10, 2014 Utility Services of Illinois, Inc. (“USI” or “Company”) filed its Ill. C. C. No. 3, First Revised Title Sheet; First Revised Sheet Nos. 1-4; and Ill. C. C. No. 4, First Revised Title Sheet; First Revised Sheet Nos. 1 & 2; hereinafter referred to as “Filed Rate Schedule Sheets” in which it proposed rate increases for water and sewer service, to be effective December 27, 2014.

Consistent with Section 9-201(b) of the Illinois Public Utilities Act (“Act”), on December 17, 2014 the Illinois Commerce Commission (“Commission”) suspended the Filed Rate Schedule Sheets for a period of 105 days beginning December 27, 2014 to, and including, April 10, 2015. (Utility Services of Illinois, Inc., ICC Suspension Order Docket No. 14-0741, 2 (December 17, 2014).)

On March 25, 2015, the Commission resuspended the Filed Rate Schedule Sheets to, and including, October 10, 2015. (Utility Services of Illinois, Inc., ICC Resuspension Order Docket No. 14-0741, 2 (March 25, 2015).)

On January 20, 2015, an initial status hearing was held in this matter. The parties agreed to a schedule setting forth filing dates for prefiled testimony and briefs. (Tr. 6-7, January 20, 2015.)

The following Staff witnesses submitted prefiled testimony in this matter: Richard Bridal II (Staff Ex. 1.0 and 7.0); Mary H. Everson (Staff Ex. 2.0 and 8.0); Theresa Ebrey (Staff Ex. 3.0); Christopher Boggs (Staff Ex. 4.0 and 9.0CORR); Janis Freetly (Staff Ex. 5.0 and 10.0); Jonathan Sperry (Staff Ex. 6.0 and 11.0); and Michael McNally (Staff Ex. 12.0).

The following parties intervened in this matter: the Galena Territory Association, Inc., Westlake Village Master Homeowners Association, Inc., and Westlake Village Limited Partnership.

The Illinois Attorney General's Office, by and through Lisa Madigan, Attorney General for the State of Illinois ("AG") filed an appearance as a party to this matter.

In addition to Staff, the Company, the AG, the Galena Territory Association, Westlake Village Master Homeowners Association, Inc. and Westlake Village Limited Partnership all filed testimony in this matter.

Evidentiary hearings were held in this matter in Chicago, Illinois on May 20, 2015.

In addition to Staff, the following parties individually or as indicated jointly filed Initial Briefs ("IB") and Reply Briefs ("RB") on June 16, 2015 and July 7, 2015, respectively: (1) Utility Services of Illinois, Inc. ("USI" or "Company"); (2) the People of the

State of Illinois by Attorney General Lisa Madigan (“AG”); and (3) jointly, the Galena Territory Association, Inc. (“GTA”), Westlake Village Master Homeowners Association, Inc. (“Westlake”), and Westlake Village Limited Partnership (“WVLP”).

With regard to the last day for Commission action on this matter and the effective date of compliance filings, Section 9-201(b) of the Act provides, in part, that:

* * *

Within 30 days after such changes have been authorized by the Commission, copies of the new or revised schedules shall be posted or filed in accordance with the terms of Section 9-103 of this Act, in such a manner that all changes shall be plainly indicated. The Commission shall incorporate into the period of suspension a review period of 4 business days during which the Commission may review and determine whether the new or revised schedules comply with the Commission’s decision approving a change to the public utility’s rates. Such review period shall not extend the suspension period by more than 2 days. Absent notification to the contrary within the 4 business day period, the new or revised schedules shall be deemed approved.

220 ILCS 5/9-201(b) (emphasis added). Based upon the above, the Commission is allowed up to four business days to review compliance filings, but the review period can only extend the suspension period by two business days. October 10, 2015, the last day of the suspension period, is a Saturday and Monday October 12, 2015 is a state holiday. The next two business days for compliance filing review following the last day of the suspension period are Tuesday, October 13th and Wednesday, October 14th. Assuming the Company makes its compliance filing the day after a Commission order in this matter, Staff has determined that October 6, 2015¹ is the last date for Commission action on this matter. An order by October 6, 2015 would allow a four day review period. Of course, the Commission could act before October 6, 2015. If the Commission were to act early,

¹ The Commission has a meeting scheduled for October 6, 2015. (Revised Commission 2015 Calendar)

the Act still allows the Commission up to four business days to review compliance filing. If the Commission acts on October 6, 2015, then the earliest effective date on the Company's new tariffs would be October 15, 2015. Finally, if the Commission acts early, then the effective date of any compliance tariffs would need to allow for a four business day review period. 220 ILCS 5/9-201(b).

B. Nature of Operations

USI is an Illinois Corporation and is a wholly owned subsidiary of Utilities, Inc. In 2014, pursuant to the Commission's approval in Docket No. 13-0618, the twenty-three Illinois utility operating companies of Utilities, Inc. were consolidated into USI. In this proceeding, USI is proposing to consolidate the tariffs of the twenty-three different rate areas that each represent a former utility company of Utilities Inc. USI provides water and sewer service. (USI Ex. 1.0, 2, 3 and 4.)

C. Test Year

USI is proposing a 2015 future test year. (USI Ex. 2.0, 3.) Staff did not take issue with the Company's use of a 2015 future test year.

D. Requested Increase

The revenue requirement schedules attached to Staff's Initial Brief begin with the USI surrebuttal revenue requirements, USI Ex. 13.01 through 13.10. To the extent that Staff's proposed adjustments (including the AG adjustment to rent expense, which Staff now supports) were rejected by the Company and not reflected in the Company's surrebuttal revenue requirements, those proposed adjustments are shown as an adjustment to the Company's surrebuttal revenue requirements. Staff's proposed adjustments that were accepted in total by the Company and therefore are reflected in

the Company's surrebuttal position are not shown as an adjustment on Staff's Initial Brief Revenue requirement schedules because the adjustments have already been reflected in the Company's surrebuttal revenue requirements.

Staff recommends a water revenue requirement of \$7,573,821 as reflected on page 1 of Appendix A to Staff's Initial Brief. This represents an increase to Water Operating Revenues of \$2,032,011 (36.67%)² when compared to the Company's *pro forma* present Water Operating Revenues. Staff's recommended increase is \$294,228³ less than the \$2,326,239⁴ increase requested by the Company in its initial filing.

Staff recommends a sewer revenue requirement of \$2,196,353 as reflected on page 1 of Appendix B to Staff's Initial Brief. This represents an increase to Sewer Operating Revenues of \$532,059 (31.97%)⁵ when compared to the Company's *pro forma* present Sewer Operating Revenues. Staff's recommended increase is \$44,858⁶ less than the \$576,917⁷ increase requested by the Company in its initial filing.

II. RATE BASE

A. Uncontested Issues

1. Working Capital

Staff proposed an adjustment to the Company's proposed calculation of cash working capital to remove the impact of real estate taxes where payment is deferred for more than one year because the deferral results in an extended payment lag from which

² Staff IB Appendix A, 1, Ln. 24-25.

³ \$2,326,239 (USI Ex. 2.1, Sch. B, 2, Col H, line 1) less \$2,032,011 (Staff IB Appendix A, 1, Ln. 24).

⁴ USI Ex. 2.1, Sch. B, 2, Col H, line 1.

⁵ Staff IB Appendix B, 1, Ln. 24-25.

⁶ \$576,917 (USI Ex. 2.1, Sch. B, 3, Col H, line 1) less \$532,059 (Staff IB Appendix B, 1, Ln. 24).

⁷ USI Ex. 2.1, Sch. B, 3, Col H, line 1.

the Company has the use of the funds. (Staff Ex. 1.0, 7-8.) The Company accepted Staff's adjustment. (USI Ex. 7.0, 1-2.)

2. Plant Disallowances from Prior Proceedings (Including Derivative Impacts)

Staff proposed an adjustment to remove certain plant that had previously been disallowed in prior rate cases of Del-Mar Water Company and the derivative adjustments for that plant. The Company had not removed the previously disallowed plant from plant in service. (Staff Ex 3.0, 2.) The Company accepted Staff's adjustment. (USI Ex. 7.0, 2 and Schedules 7.02W and 7.04W.)

3. Capitalized Time in Plant Accounts with No Assets

Please see the discussion of the adjustment discussed in Item II.A.2, above.

4. Derivative Impact of Illinois State Income Tax Rate Change

Staff proposed an adjustment to reflect the impact on Accumulated Deferred Income Taxes ("ADIT") for the decrease in the Illinois State Income Tax ("SIT") rate from 9.5% to 7.75% effective January 1, 2015, in accordance with Public Act 98-496. (Staff Ex. 1.0, 9-10.) The Company accepted Staff's adjustment. (USI Ex. 7.0, 8.) No other party addressed this issue in testimony.

5. Derivative Impact of 2014 Bonus Depreciation

Staff proposed an adjustment to reflect the impact on ADIT for 50% bonus depreciation elected in 2014. (Staff Ex. 1.0, 12-13.) The Company agreed with Staff's adjustment and updated the adjustment to include the impact of changes in 2014 Utility Plant in Service (as set forth in USI Ex. 7.11) and to use the correct state income tax rate of 7.75% as opposed to the 9.5% that was used in the calculation of Staff's adjustment.

(USI Ex. 7.0, 3; USI Ex. 8.0, 1-2.) Staff concurs with the updated adjustment proposed by USI. (Staff Ex. 7.0, 6.) No other party addressed this issue in testimony.

6. Oakwood Main Project

USI proposed adjustments in its rebuttal testimony to include a major water main project for the Oakwood service area. (USI Ex. 7.0, 2; USI Ex. 9.0, 1-3.) USI first discussed this plant addition in its December 22, 2014 supplemental direct testimony, USI Exhibit 5.01, wherein USI stated that the project was expected to be completed by the end of 2014 and was unintentionally left out of USI's direct testimony exhibits. (USI Ex. 5.01, 1-3.) Staff reviewed supporting documentation for the main project and did not object to the inclusion of the project in rate base. (Staff Ex. 7.0, 7.) No other party addressed this issue in testimony.

7. Capitalization of Costs Associated with 83 Ill. Adm. Code 280

In direct testimony, Staff discussed USI data request responses associated with the Company's implementation of 83 Ill. Adm. Code 280, Procedures for Gas, Electric, Water and Sanitary Sewer Utilities Governing Eligibility for Service, Deposits, Billing, Payments, Refunds and Disconnection of Service. (Staff Ex. 1.0, 21-22.) At that time, data requests related to the projected spending to ensure compliance with rule changes to 83 Ill. Adm. Code 280 were still outstanding. Staff's direct testimony also required that if USI intended to request recovery of these costs, the Company should in its rebuttal testimony clearly set forth the necessary changes to its proposed revenue requirement and provide a detailed explanation of these additional costs. USI provided the required explanation within its rebuttal testimony and referenced its data request ("DR") responses on this issue. (USI Ex. 7.0, 2-3; USI Ex. 6.0, 5-6.) Staff has no objection to including the

proposed costs required to implement and comply with changes to 83 Ill. Adm. Code 280. (Staff Ex. 7.0, 8.) No other party addressed this issue in testimony.

8. Original Cost Determination

Based on the adjustments to Plant in Service recommended by Staff and as calculated on Schedule 1.15, Staff recommends the Commission order state:

It is further ordered that the \$37,241,560 original cost of water plant in service for Utility Services of Illinois, Inc. at December 31, 2013, as reflected on Staff Schedule 1.15, is unconditionally approved as the water original costs of plant.

It is further ordered that the \$11,760,334 original cost of sewer plant in service for Utility Services of Illinois, Inc. at December 31, 2013, as reflected on Staff Schedule 1.15, is unconditionally approved as the sewer original costs of plant.

Staff used December 31, 2013 for the original cost determination because the twelve months ending December 31, 2013 represents the most recent calendar year for which final historical data is available. Since USI maintains its books on a calendar year basis, using the most recent calendar year for which final historical data is available would set a more reasonable starting point for updating the original cost determination in future rate cases. Due to its acquisition during 2014, the Galena Territories – Oakwood service area was not included in Staff's original cost recommendation. (Staff Ex. 1.0, 21-22.) The Company agreed with Staff's recommendation. (USI Ex. 7.0, 3.) No other party addressed this issue in testimony.

B. Contested Issues

1. None⁸ [Deferred Charges]

Please see Section III.B.1 Deferred Maintenance Expense, below.

⁸ The agreed to outline listed no contested issues under rate base, however there is a contested operating expense issue concerning deferred maintenance expense [III.B.1], which has an impact on rate base as

III. OPERATING REVENUE AND EXPENSES

A. Uncontested Issues

1. Add-On Taxes / Public Utility Tax

Staff proposed an adjustment to remove add-on taxes from operating revenues and expenses. Additional amounts of add-on tax included in the Company's proposed increases were removed through the gross revenue conversion factor on column (f) of Schedules 1.01 W and 1.01 S. The taxes are an add-on charge to customers' bills and are not an actual operating expense of the utility. (Staff Ex. 1.0, 8.) The Company agreed with Staff's adjustment. (USI Ex. 7.0, 1-2.) No other party addressed this issue in testimony.

2. Illinois State Income Tax Rate Change

Staff proposed an adjustment to reflect the impact on the test year expenses at present rates for the decrease in the Illinois SIT rate from 9.5% to 7.75% effective January 1, 2015, in accordance with Public Act 98-496, Income Tax Rate – Section 201. (Staff Ex. 1.0, 9.) USI agreed with Staff's adjustment. (USI Ex. 7.0, 8.) No other party addressed this issue in testimony.

3. Lake Marian Loss of Prudent Abandonment ("LOPA") Amortization

Staff proposed an adjustment to extend the length of the amortization period for the Lake Marian Water Production Plant Loss of Prudent Abandonment ("LOPA"). Staff's adjustment results in a reduction to the annual amortization expense. (Staff Ex. 1.0, 10-11.) The Company does not agree with Staff's adjustment; however, for purposes of

discussed in Section III.B.1. Accordingly, the outline should show that there is a contested rate base issue which Staff identifies in this brief as "Deferred Charges."

reducing the number of issues in this proceeding the Company accepted Staff's adjustment. (USI Ex. 7.0, 9.) No other party addressed this issue in testimony.

4. 2014 Bonus Depreciation

Staff proposed an adjustment to include the impacts of calendar year 2014 50% bonus depreciation in the revenue requirement. (Staff Ex. 7.0, 12-13.) The Company agreed with Staff's adjustment and updated the adjustment to include the impact of changes in 2014 Utility Plant in Service (as set forth in USI Ex. 7.11) and to use the correct state income tax rate of 7.75% as opposed to the 9.5% that was used in the calculation of Staff's adjustment. (USI Ex. 7.0, 3; USI Ex. 8.0, 1-2.) Staff concurs with the updated adjustment proposed by USI. (Staff Ex. 7.0, 6.) No other party addressed this issue in testimony.

5. Holiday Parties, Events & Picnics Expense

Staff proposed in direct testimony the removal of USI's holiday parties, events, and picnics expense because these costs are not necessary for the provision of utility service and should not be recovered from ratepayers. (Staff Ex. 2.0, 10: 204-208.) USI did not oppose this adjustment in its rebuttal testimony. (USI Ex. 7.0 8:156-159.)

6. Customer Service Expense

Staff proposed a reduction to USI's forecasted billing and customer services expense to a more reasonable level as determined by the Company in its response to Staff Data Request ("DR") MHE 7.05. (Staff Ex. 2.0, 11-12: 235-245; Staff Ex. 2.0, Attachment E.) USI agreed with the adjustment in its rebuttal testimony. (USI Ex. 7.0, 8:162-164.)

7. Unaccounted-For Water Expenses

Staff witness Jonathan M. Sperry testified that the amount to which the unaccounted-for water exceeds the maximum as defined by the Company's tariffs is 4.2%. (Staff Ex. 11.0, 3:63-64, Schedule 11.03.) Given Mr. Sperry's testimony that the Company's unaccounted for water was in excess of that permitted by the Company's tariff, Staff witness Mary H. Everson calculated an adjustment to operating expenses of negative \$25,893 to account for excess purchased power and fuel, excess chemicals, and excess purchased water. (Staff Ex. 8.0, Schedule 8.03.)

USI witness Dimitry I. Neyzelman did not oppose Mr. Sperry's testimony nor Ms. Everson's proposed adjustment. (USI Ex. 13.0, 5:95.)

8. Rent Expense

Staff proposed an adjustment to reduce the level of the rent expense based on a more reasonable rate per square foot for the proposed new lease than the rate per square foot proposed by the Company. (Staff Ex. 2.0, 8-10: 155-200.) The AG's adjustment eliminated the increased rent expense that its witness determined to be unsupported. (AG Ex. 1.0, 6: 114-125.) At the evidentiary hearing, USI witness Steven Lubertoizzi accepted the AG's adjustment, eliminating the increase to rent expense in its entirety, thus making Staff's proposed adjustment moot. Staff considers the issue to be uncontested. (Tr., 19: 20-22 and 20: 1-4, May 20, 2015.)

9. Rate Case Expense

a. Legal Fees

Pursuant to Section 9-229 of the Act, the Commission is to "specifically assess the justness and reasonableness of any amount expended by a public utility to compensate

attorneys or technical experts to prepare and litigate a general rate case filing. This issue shall be expressly addressed in the Commission's final order." 220 ILCS 5/9-229. With the exception of rate case expense for WSC personnel,⁹ rate case expense was an uncontested issue. No party, including Staff, proposed an adjustment for legal fees in their respective IBs. The Company proposed legal fees of \$200,000, to which Staff agreed. (USI Ex. 7.2; USI Ex. 13.2; and Staff Ex. 2.0, Schedule 8.02, page 3 of 3, line 1.)

Staff did propose adjustments related to projected expenses for a depreciation witness (negative \$16,276 adjustment) (Staff IB, 11), rate of return witness (negative \$29,950 adjustment) (Staff Ex. 8.0, Schedule 8.02, page 3 of 3, line 9 (\$49,950-\$20,000)), and various expenses related to mailing, travel and other costs related to rate case expense (negative \$9,200 adjustment) (Staff Ex. 8.0, Schedule 8.02, page 3 of 3, line 5). The Company accepted Staff's proposed adjustments (Staff IB, 11-12), and therefore did not address the agreed to issues in its IB.

b. Depreciation Study Witness

Staff witness Jonathan M. Sperry testified that USI incurred \$15,724 in charges for work related to a depreciation study as of the filing of Staff's rebuttal testimony. (Staff Ex. 11.0, 2:40-42.) USI estimated a total cost of \$32,000 for the depreciation study, but that estimate assumed approximately \$16,000 in costs related to post filing work (e.g., preparation of surrebuttal testimony, testimony at hearings and post hearing briefing). (USI Ex. 7.2, Part 1.) Given that the depreciation rates are uncontested, there should be no further costs incurred related to the issue. Therefore, Mr. Sperry recommended that

⁹ Rate case expense for WSC personnel was only contested by the AG. Staff withdrew its adjustment in its rebuttal testimony. (Staff Ex. 8.0, 4:65-67.)

a negative adjustment of \$16,276 be made to rate case expense to reflect actual charges incurred related to the depreciation study. (Staff Ex. 11.0, 2:44-3:46, 6:113-15.)

USI witness Dimitry I. Neyzelman agreed with Staff's recommendation. (USI Ex. 13.0, 3:49-51.)

c. Rate of Return Witness

Staff proposed an adjustment to rate case expense for USI's rate of return witness Mr. D'Ascendis's¹⁰ expenses. Staff witness McNally testified that the \$23,956.25 actually billed for work related to Mr. D'Ascendis's rebuttal testimony was not just and reasonable. (Staff Ex. 12.0, 2.) Staff and the Company reached an agreement on the appropriate level of costs for Mr. D'Ascendis's testimony. They agreed that \$20,000 would be a reasonable amount to recover through rates. Id. The adjustment is reflected in Staff witness Everson's rebuttal schedules. (Staff Ex. 8.0, 4: 62-73.) The Company confirmed that agreement in the surrebuttal testimony of Dimitry I. Neyzelman. (USI Ex.13.0, 3: 53-55.)

d. Mailing, Travel, and Other Costs

Staff proposed an adjustment to USI's forecasted travel to public forums since the Commission did not hold any public forums and none had been planned. (Staff Ex. 2.0, 91-101.) The Company incorporated Staff's adjustment into its surrebuttal testimony schedules, therefore it is no longer contesting the issue. (USI Exhibit 13.0, 3:41-44.)

¹⁰ Mr. D'Ascendis works for Sussex Economic Advisors, LLC. (Staff Ex. 8.0, 4: 67-70.)

B. Contested Issues

1. Deferred Maintenance Expense

The Commission should adopt Staff's adjustments to deferred maintenance expense and deferred charges. (Staff Ex. 7.0, 11.) The Company accepted Staff's adjustments.

Staff proposed adjustments to deferred maintenance and deferred charges to:

1. Remove costs associated with volatile organic compound ("VOC") testing incurred during years outside of the test year;
2. Remove costs associated with painting the Company logo on water tanks; and
3. Extend the amortization period for tank painting from five years to ten years.

(Staff Ex. 7.0, 11.)

Staff removed deferred VOC testing costs that were incurred prior to the test year and for which the Commission did not authorize the deferral as required by 83 Ill. Adm. Code 605, the Uniform System of Accounts in Illinois ("USOA"), Instructions to Account 186, Miscellaneous Deferred Debits. Staff's adjustments also removed the cost of painting the Company logo on tanks because (1) painting the Company logo on tanks is not necessary for the provision of utility services; (2) the costs to paint the Company logo on tanks are incurred for promotional, institutional, or goodwill advertising that is not allowable under the Public Utilities Act ("PUA"); and (3) recovery of the costs incurred to paint the Company logo on tanks is contrary to Commission guidance in its Final Order in the Company's most recent rate case. Finally, Staff changed the amortization period for tank painting from the Company-proposed period of five years to ten years, thereby reducing the amount of deferred maintenance expense included in the revenue

requirement. Staff argued that ten years is a more reasonable length of time between tank paintings because it was consistent with the amortization period that has been requested by the Company in prior rate cases and consistent with the amortization period approved by the Commission in prior rate cases. (Staff Ex. 1.0, 13-17.) The Company agreed with Staff's adjustment. (USI Ex. 7.0, 3, 8.)

AG witness Mr. Radigan argued that the Company's projection of test year deferred maintenance expense is beyond what should be expected and concluded that it is unreasonable to base rates on a level of spending that is abnormal and so much higher than recent history. (AG Ex. 1.0, 11-14.) While noting that deferred maintenance expense projects include tank painting, periodic testing, and five-year inspections, Mr. Radigan's testimony focused on the overall level of spending rather than specific projects. Mr. Radigan proposed a blanket adjustment to reduce total deferred maintenance expense by \$194,339. Id. In rebuttal testimony, Mr. Radigan opined that the Company had not supported its deferred maintenance cost and stated that USI has merely provided a laundry list of items without any discussion of why the costs should be considered just and reasonable. (AG Ex. 2.0, 12.)

Staff agrees with Mr. Radigan in that the Company's level of deferred maintenance expense forecast for the test year was beyond what should be expected. Staff's analysis and resulting adjustments removed specific, non-recoverable costs in addition to extending the amortization period for various tank painting projects from five years to ten years, consistent with prior Commission practice. (Staff Ex. 1.0, 13-17.) These adjustments reduced water deferred maintenance expense for the test year by \$199,896. (Staff Ex. 1.0, Sch. 1.14 W.) While Staff's adjustments to extend the amortization period

for tank painting projects reduced test year tank painting amortization expense, these adjustments also increased deferred charges in rate base by \$459,640. Id. The net effect of Staff's adjustments to deferred maintenance and deferred charges was to reduce the revenue requirement requested by the Company for its water service areas by \$154,583. (Staff Ex. 1.0, Sch. 1.05 W, Ln. 7.)

The AG's IB mischaracterized the Staff position regarding its adjustments to deferred maintenance expense and deferred charges. (AG IB, 2-3.) The AG in its initial brief argued that Staff's adjustment "makes no attempt to consider the justness and reasonableness of the *amount* of the Company's proposed cost recovery for deferred maintenance, but rather simply proposes to stretch out the recovery of the same costs over a longer period." Id. at 3. This claim is not correct, as Staff witness Bridal proposed adjustments that disallowed several deferred maintenance costs because the deferrals had not been authorized by the Commission, were not necessary for the provision of utility services, or were not allowable under the Act. (Staff Ex. 1.0, 13-16.) Thus, Staff did consider the justness and reasonableness of the amount requested by the Company for deferred maintenance.

The AG IB is correct that one component of Staff witness Bridal's adjustment to extend the amortization period for tank painting from five years to ten years does "stretch out the recovery of the same costs over a longer period." (AG IB, 2-3.) However, the ten year amortization period is consistent with both the Company's and the Commission's prior practice. (Staff Ex. 1.0, at 16-17.) Further, the AG does not object to Mr. Bridal's reasoning regarding the extended amortization period. (AG IB, 3.)

For the reasons set forth above, the Commission should adopt Staff's adjustments to deferred maintenance expense and deferred charges.

2. Fuel Expense

Staff proposed a two-fold adjustment to USI's fuel expense to reflect the decline in fuel prices that occurred after USI prepared its fuel forecast and to remove the inclusion of the 2% escalation factor USI added to its forecast. Staff calculated its adjustment using the U.S. Energy Information Administration ("EIA") Short Term Energy Outlook, dated February 2015. (Staff Ex. 2.0, 2: 40-47.) USI agreed in its rebuttal testimony to the use of a more current forecast of fuel prices. (USI Ex. 8.0, 2:41-42.) However, the Company disagreed with Staff's adjustment removing the 2% escalator to the forecasted fuel prices. (USI Ex. 8.0, 2-3:41-49.) AG witness Frank Radigan proposed an adjustment to limit USI's forecasted fuel expense to \$2.40 per gallon, based on his review of northern Illinois fuel prices and the EIA's predicted lower gasoline prices for the next 18 months. No provision for an additional 2% is included in the AG's adjustment. (AG Ex. 1.0, 5:98-110.)

Rather than recommending one static price for a future period or relying on USI's historical average, Staff's analysis used the EIA Gasoline and Diesel Fuel Update full history spreadsheet¹¹ to verify the Company's 2% factor. The full history spreadsheet contains weekly national prices for conventional, reformulated, and all formulations of regular gasoline prices from May 11, 1992 and November 28, 1994 through February 16, 2015. This history spreadsheet is further broken down into separate pricing by region. For the comparison to the national pricing, Staff used the Midwest regional pricing, which did not support USI's basis for a 2% escalator. (Staff Ex. 2.0, 3-4: 60-76.) In addition, USI did

¹¹ <http://www.eia.gov/forecasts/steo/data.cfm?type=figures>, dated February 10, 2015.

not provide any analysis that supported its claim that its fuel cost expense was higher than national or regional average prices. USI's support was limited to the argument presented by its witness Kersey that argued that the Company's historical average fuel prices were consistently 2% higher than the national or the Midwest region and that the Company's historical average fuel prices was more appropriate than the Midwest regional pricing. (USI Ex. 8.0, 3:41-59.)

In rebuttal, the AG changed its recommendation from the \$2.40 per gallon it recommended in direct testimony and instead advocated leaving it to the Commission to decide this issue. (AG Ex. 2.0, 7:138-148.) In its rebuttal testimony, Staff noted that its use of the Midwest regional prices was a more appropriate proxy than the national average since the Company operates in the Midwest region of the country and further, USI offered no analysis supporting its 2% escalator. Without an analysis supporting the 2% variance, USI's ratepayers should not be burdened with a cost that the Company's supplemental response to Staff DR MHE 10.01 shows has been higher than the national average for the last three years. (Staff Ex. 8.0, 2-3: 29-54; Staff Ex. 2.0, Attachment A.)

In its surrebuttal, USI accepted Staff's calculation of fuel expense to reduce the number of issues in the case. (USI Ex. 12.0, 2:26-31.)

Staff takes issue with the AG's summary of Fuel Expense. (AG IB, 4-5.) The AG offers two alternative positions. One of the AG's positions is not supported by evidence in the record and the other does not consider that USI, in its surrebuttal testimony, accepted Staff's proposal of \$2.66 per gallon¹² for the projection of 2015 fuel expense. (USI Exhibit 13.0, Schedule 13.02).

¹² Staff Exhibit 8.0, Schedule 8.01

The AG offers an alternative that “the Commission could use Mr. Kersey’s recommendation to use a value of \$2.7062, based on the March 2015 EIA forecast.” (AG IB at 5.) However, the value of \$2.7062 is no longer the Company’s position as of USI’s surrebuttal (USI Ex. 13.0 4-5:76-90), as the Company incorporated a price of \$2.66 per gallon, not \$2.7062, into its surrebuttal position. The projection of \$2.7062 per gallon is from USI’s rebuttal testimony (USI Ex. 8.0, Sch. 8.2, p.1, line 24) and, as stated above, this price per gallon is no longer a position advocated by USI. The AG IB does offer that the Commission use the “latest EIA data” at the time of the Commission’s final order, (AG IB, 5), however, that price and the additional information is not in the evidentiary record.

Thus, the choices currently before the Commission are Staff’s position of \$2.66 per gallon, which USI accepted and included in its surrebuttal schedules and testimony; USI’s rebuttal position of \$2.7062 which is no longer supported by USI; or the latest EIA data at the time of the Commission’s final order which is not in evidence. Since Commission orders must be based upon evidence in the record (220 ILCS 5/10-103; 220 ILCS 5/10-201(e)(iv)(A)), the AG’s alternative position of using the latest EIA data must be rejected. And given that USI no longer supports its rebuttal position, Staff recommends the Commission adopt Staff’s proposed fuel price per gallon of \$2.66, which was accepted by USI in its surrebuttal testimony.

3. Rate Case Expense

a. WSC Personnel

At issue is whether USI provided sufficient supporting detail of rate case expenses charged to USI from Water Service Corporation (“WSC”). The AG maintains that

sufficient supporting detail has not been provided, but Staff has accepted the supporting detail as sufficient.

In direct testimony, Staff proposed an adjustment to reduce rate case expense from the Company's affiliate, WSC. These expenses are forecasted labor costs associated with preparing the rate case filing and responding to Staff DRs. The adjustment is necessary since the Company's supporting documentation was only minimally descriptive of the duties performed and of the number of hours spent for each duty. (Staff Ex. 2.0, 6:104-119.) The AG's direct testimony proposed an adjustment removing the cost of all WSC employees' time spent on rate case work since in USI's 2011 rate case, "the Commission disallowed rate case expense for work done by internal staff because the utilities failed to provide details about their staff's work." (AG Ex. 1.0, 10:195-207.)

USI's rebuttal testimony included an update to its actual and estimated rate case expense, which included more detailed descriptions of time spent by WSC employees. (USI Ex. 7.0, 5:91-94.) The AG was not satisfied with the documentation provided by USI in rebuttal and maintained that there was a lack of sufficiency of documentation available for review and that there was a double counting between salary expense charged to expense and salary expense charged to capital. (AG Ex. 2.0, 18:387-390.)

In surrebuttal testimony, USI disagreed with the AG's argument regarding the level of detail provided, stating that it had provided sufficient detail regarding the actual expenses incurred, by whom, for what purpose and why such expenses were necessary to either prepare the case, respond to discovery, prepare testimony or complete other activities pertinent to the case. (USI Ex. 12.0, 11:212-218.)

Staff accepted the detailed listing of time spent by WSC employees provided by USI in its rebuttal testimony and withdrew its adjustment in rebuttal testimony. (Staff Ex. 8.0, 4:65-67.)

4. Insurance Expense

At issue is whether the Company has supported its increase in insurance expense for the 2015 test year. The AG direct testimony proposed an adjustment to decrease insurance expense, opining that USI had not supported its 0.3% forecast. The AG's proposed adjustment was calculated using the average of USI's 2013-2014 insurance expense. (AG Ex. 1.0, 10:212-226.) Staff supported the AG's adjustment in its rebuttal testimony, but then withdrew the adjustment upon review of the Company's surrebuttal testimony.

In rebuttal testimony, Staff noted that it agreed with the AG's theoretical basis for an adjustment to insurance expense, but did not agree with using the average of 2013 and 2014 insurance expense to determine the adjustment. Staff instead proposed reducing USI's insurance expense by 2.2% to match the forecast basis USI provided in USI Ex. 3.1 (Guidelines for 2014-2015 Forecast) that showed WSC would experience a 2.2% decrease in cost between 2014 and 2015. USI's rebuttal stated: "Total allocated costs to USI do not decrease between FY 2014 and FY 2015 because of incremental allocations related to the acquisition of USI's Oakwood system." (USI Ex. 8.0, 6-7:123-133.) In response, the AG's rebuttal to USI stated: "The Company should produce the Oakwood insurance bill and show how this incremental change affects overall costs. The Company could produce numbers on the number of customers each system has and how

this affects cost allocation and why the 2013-2014 costs do not reflect current conditions.”
(AG Ex. 2.0, 14: 304-308.)

USI’s surrebuttal testimony included a table to better explain the increase to insurance expense that shows: a WSC overall insurance expense decline of 2.2%, consistent with its explanation in USI Ex. 3.1; an increase in USI’s Equivalent Residential Customer (“ERC”) base of 2.5%; and the resulting 0.3% increase in USI’s allocation of WSC insurance expense between 2014 and 2015. (USI Ex. 14.0, 2-3: 27-44.)

Staff is withdrawing its adjustment based on the explanation presented in USI’s surrebuttal testimony on this issue.

5. Wages & Salaries Expense

6. Uncollectibles Expense

AG witness Mr. Radigan proposed to reduce the USI total water and sewer uncollectible expense by \$79,149, to \$30,000. In support of his adjustment, Mr. Radigan stated that the Company’s absolute bad debt expense (also known as “net write offs”) varies widely from year to year and that the Company’s forecast overstated uncollectible expense on a percentage basis. (AG Ex. 1.0, 6-7.) The Company observed that Mr. Radigan neglected to include Agency Expense and Uncollectible Accounts Accrual in his analysis. USI further stated that when all necessary components are utilized, uncollectible percentages forecast for the test year are consistent with actual experience in past years. (USI Ex. 8.0, 4-5.)

Staff agrees with Mr. Radigan that the USI “absolute” bad debt expense varies widely from year to year and the percentage of “absolute” bad debt in comparison to

revenues is lower than the uncollectible percentage proposed by the Company in this proceeding. However, Staff does not agree with the AG adjustment.

In determining its proposed uncollectible percentage in this proceeding, USI divided its forecast Account 670 Bad Debt Expense amount by its forecast test year operating revenues. This approach is consistent with that approved by the Commission in the Company's prior rate case filings. (Staff Ex. 7.0, 9-10.) As noted in the rebuttal testimony of USI witness Mr. Kersey, when calculated using consistent methodologies, the uncollectible percentages proposed by the Company in this proceeding are consistent with the Company's recent historical experience. (USI Ex. 8.0, 5.) Further, Mr. Radigan's adjustment does not appear to account for the presence of significant uncollectible amounts associated with unpaid availability charges. (USI Ex. 14.0, 4-5.)

Staff recommends that the Commission approve total water and sewer test year uncollectible expense as 1.08% of approved operating revenue, as proposed by the Company. As explained above, 1.08% is consistent with the Company's recent experience, is calculated consistently with the methodology approved by the Commission in the Company's prior rate case filings, and reflects uncollectible amounts associated with unpaid availability charges. However, should the Commission disagree with Staff and the Company and adopt Mr. Radigan's proposal, then the Commission should ensure that the AG adjustment is apportioned between water and sewer service using Equivalent Residential Connection ("ERC") counts set forth within ICC Staff Cross Exhibit 1 (CD ROMS containing the USI rate case filing template).

7. Sales Adjustment

The Commission should reject the sales adjustment proposed by AG witness

Radigan.

Mr. Radigan disagrees with the Company's forecasted test year sales level, which reflects a 2.65% decline in customer usage. Because of this, Mr. Radigan proposes an adjustment to increase current revenues by \$130,000, which he maintains will then reduce the total revenue requirement by \$130,000. (AG Exhibit 1.0, 10:188-190.) However, Mr. Radigan's proposed adjustment, in the form he has proposed it, would not reduce the final total revenue requirement in the way that Mr. Radigan intends.

Staff witness Bridal explained how the total revenue requirement is calculated on his Schedule 1.01W. (Staff Exhibit 1.0, 4:70-74.) Because of the way the total revenue requirement is calculated in column (i) of this schedule, Mr. Radigan's adjustment would not change the final total revenue requirement because the final revenue requirement is calculated using the approved rate base, return on rate base, and operating expenses. Mr. Radigan's adjustment would merely increase the current revenues shown in column (d) by \$130,000 and decrease the adjustment to proposed amount in column (h) by an offsetting \$130,000. This would leave the total revenue requirement in column (i) unchanged and would fail to accomplish what Mr. Radigan intends.

Unlike Mr. Radigan, Staff did not take issue with the Company's adjustment to reflect a 2.65% decrease in customer usage. However, if the Commission agrees with Mr. Radigan that it is unreasonable to anticipate any decline in usage, then Staff recommends the Commission increase the usage billing units by 2.65% in the calculation of rates rather than adjusting the revenues in the manner Mr. Radigan proposes.

In its IB, the AG acknowledged that if an adjustment is made, then it should be made to the usage billing units used to calculate the final rates to recover the approved revenue requirement. (AG IB, 11.).

IV. RATE OF RETURN

Staff agreed to a rate of return on common equity of 9.25% for the purpose of resolving that issue in this proceeding. (Staff Ex. 10.0, 1.) Incorporating that rate of return on common equity into the Company's capital structure results in an overall rate of return of 7.88%. (USI Ex. 11.0, Schedule 11.1.)

Utility Services of Illinois, Inc.						
Weighted Average Cost of Capital						
December 31, 2015						
	Amount	Percent of Total Capital	Cost	Weighted Cost		
Short-term Debt	\$6,496,098	1.74%	1.69%	0.03%		
Long-term Debt	\$178,726,842	47.96%	6.66%	3.19%		
Common Equity	\$187,444,000	50.30%	9.25%	4.65%		
Total Capital	\$372,666,940	100.00%				
Weighted Average Cost of Capital				7.88%		

A. Uncontested Issues

1. Capital Structure

Staff and the Company agree that USI's capital structure for the year ended December 31, 2015 is comprised of 1.74% short-term debt, 47.96% long-term debt, and 50.30% common equity. (USI Ex. 11.0, Schedule 11.1.)

2. Cost of Debt

Staff estimated that the Company's cost of short-term debt is 1.69%, based on the current interest rate on USI's short-term revolving bank facility. (Staff Ex. 5.0, 8.)

The Company's embedded cost of long-term debt for 2015 is 6.66%. (Staff Ex. 5.0, Schedule 5.3.) Staff included the annual amortization of debt expense, which reflects straight-line amortization of the unamortized balance over the remaining life of the outstanding issue of long-term debt. (Staff Ex. 5.0, 8.)

USI accepted Staff's costs of short-term and long-term debt. (USI Ex. 11.0, Schedule 11.1.)

3. Return on Equity ("ROE")

For the purpose of resolving the issue, the parties have agreed to a 9.25% ROE for USI for the purpose of setting rates. (Staff Ex. 10.0, 1; USI Ex. 11.0, 2.) Staff's decision to agree with a 9.25% ROE should not be construed to mean that Staff witness Freetly concluded that any of the adjustments proposed by Company witness Mr. D'Ascendis to Ms. Freetly's cost of common equity analysis have any merit whatsoever. (Staff Ex. 10.0, 1.) A 9.25% ROE was recommended by the AG and is within the range of results produced by various methodologies used by Staff and the Company. (USI Ex. 11.0, 2.)

Given the above, Staff recommends that the Commission approve an ROE of 9.25% for USI.

V. RATE DESIGN

A. Uncontested Issues

1. Availability Charge

The Company proposed an Availability Charge of \$1.68, but did not explain how it developed its proposed Availability Charge. However, tab wp-t-2 COSS in the *USI IL Consol RC Filing Template 2014*, which the Company provided with its initial filing indicates that the Company proposes to bill Availability customers only the actual \$1.68 cost that it takes to send them a monthly bill. (Staff Ex. 4.0, 15:284-288.)

Charging Availability customers a monthly amount that is equal to the cost of sending them a monthly bill does not make much sense. Although Availability customers are not currently using water, they have the ability to avail of such service, just as full water customers do, and they should be required to pay a fee for that service privilege. According to tab wp-t-4 COSS of the *USI IL Consol RC Filing Template*, the Company allocates approximately 11.4% of its Operation and Maintenance costs to Availability customers. Furthermore, these customers currently pay an amount for Availability service that is more than the cost of sending them a monthly bill. *Id.* at 15:291-16:301.

The average monthly Availability Charge currently is approximately \$8.50 for all divisions with Availability customers. Charging this rate would generate approximately 6% of the overall yearly revenue for the Company and would represent a fair portion of the contribution to revenues based on the availability of service and the approximately 11.4% of Operations and Maintenance costs allocated to serve these customers. Full water customers have to pay a monthly Base Facilities Charge (“BFC”) for the privilege to have water service available to them. Availability customers should similarly share in

some of the monthly costs that the Company incurs to provide water service to all customers. Id. at 16:303-314.

The Company indicated that it will accept the \$8.50 consolidated Availability Charge, which is reflected in its rebuttal schedules. (USI Ex. 6.0, 6:120-121.)

2. Provision of an Updated Cost of Service Study in the Company's Next Rate Case

For its Cost of Service ("COS") study, the Company used the simplified cost of service study model that Staff provided previously, which is designed for small water companies. For purposes of this case, the Company's COS study appropriately assigns costs to the various functions and rate classes. Thus, it is an acceptable guidance tool for determining rates in this case. (Staff Ex. 4.0, 25:496-504.)

However, a more comprehensive COS study would likely provide a better snapshot of how the cost to serve all customers should be allocated to the different customer classes across the current twenty-two water divisions and the nine sewer divisions.¹³ The Commission has recognized that a more comprehensive COS study and the hiring of an expert witness on COS has been cost prohibitive given the small number of customers at the individual water divisions for which the Company previously filed for rate relief. (Charmer Water Company, Proposed increase in water rates, Final Order, Docket Nos. 11-0561 – 11-0566 (Cons.), 25-26 (May 22, 2012).) However, if the Commission approves the Company's proposal to consolidate all of its twenty-two water divisions into one Consolidated Group (USI Ex. 1.0, 2), then a larger group over which such costs can

¹³ While there were 23 companies at the time the Commission ordered consolidation in Docket No. 13-0618, there were 21 water divisions and 8 sewer divisions amongst the original 23 companies. With the acquisition of Galena Territories – Oakwood in 2014, however, there are 22 water divisions and 9 sewer divisions for future test years.

be spread will be created. (Staff Ex. 4.0, 25:506-517.) If the Commission approves the Company's consolidation proposals, then the Commission should order the Company to provide in its next rate case a full, in-depth COS study along the lines of those presented in the American Water Works Association's *Water Rates Manual M1*, Sixth Edition. This would assist in determining the most equitable way to allocate costs and expenses among the various customer classes in the consolidated group. Id. at 26:519-528.

The Company indicated that it will provide a COS study consistent with the American Water Work's Association's *Water Rates Manual M1*, Sixth Edition. The Company further explained that it would need to engage an expert to perform the study and would expect the cost of doing so to be subject to recovery as rate case expense. (USI Ex. 6.0, 7:143-156.)

B. Contested Issues

1. Forecasted Reduction in Water Usage

2. Consolidated Rate Structure

a. Consolidation of All Service Areas

The Company proposes to combine twenty-two of its water divisions into one consolidated water division that has a single rate structure. The Company also proposes to combine each of its nine sewer divisions into one consolidated sewer division that has a single rate structure. (Staff Ex. 4.0, 4:65-72.) Staff recommends the Commission accept the Company's consolidation proposals. Id. at 14:254-256.

Company witness Mr. Lubertozi indicates that consolidated rates are commonplace in other regulated utilities like gas and electric. He states that consolidated rates would allow USI to spread capital costs over a larger base of customers, thus

mitigating rate shock to a smaller stand-alone division's customer base when infrastructure improvements become necessary in a particular rate area. He also indicates that, in the long-term, consolidated rates will strengthen USI and allow the customers to enjoy lower rates via fewer rate cases and lower rate case expense. (USI Ex. 1.0, 13.)

Staff witness Mr. Boggs reviewed tab wp-t-1 COSS of the *USI IL Consol RC Filing Template* document that the Company included in its initial filing and considered bill impacts for average use customers. Mr. Boggs did this to determine what the rate impacts of a consolidated rate structure would be on each individual water division. Mr. Boggs's initial review indicated that, of the twenty-two individual water divisions included in this filing, only seven divisions (Clarendon Water Co., Ferson Creek Utilities, Galena Territory Utilities, Killarney Water Co., Lake Holiday Utilities Co., Whispering Hills Water Co., and Westlake Utilities) would receive a higher increase under the Company's proposed consolidated rate structure than they would receive on a stand-alone basis. Customers of all seven of the above mentioned water divisions will see a significant increase whether they remain a stand-alone division or whether they are consolidated with other divisions in any combination. (Staff Ex. 4.0, 5:95-7:27.)

Staff witness Boggs inquired whether the Company had considered any scenarios other than combining the systems in any way other than into one, consolidated division. In response to Staff Data Request ("DR") CB 5.01 (a), the Company indicated that it did not consider or perform any other calculations or analyses of combining the systems in any way other than into one, consolidated division. In response to Staff DR CB 5.01 (c) the Company indicated that "The intention of using Staff's cost of service study model

was to create a rate design containing all of USI's operating subsidiaries into one, consolidated division. In addition, in order to determine the appropriateness of the combinations, the Company would have needed to procure cost of service study and rate design experts." (Staff Ex. 4.0, 7:128-8:141.)

Staff witness Mr. Boggs then explored several different rate structure combinations based on the bill impact scenarios and determined that some should be further analyzed.

First, Mr. Boggs analyzed a rate structure that removed Lake Holiday Utilities, Whispering Hills Water Company and Westlake Utilities, Inc. from the Company proposed Consolidated Group. Mr. Boggs removed these three divisions because they would experience the largest increases in the average customer's monthly water bill as part of the consolidated division than if they remained on a stand-alone basis. In this scenario, Lake Holiday Utilities and Whispering Hills would both benefit from moving out of the Consolidated Group and remaining a stand-alone entity. However, Westlake Utilities would require a Base Facilities Charge that would be higher than the one that the Company proposed for its fully consolidated rate structure group and the Consolidated Group would require a significant increase in both its BFC and Usage Charges. Id. at 9:169-10:184.

The second rate structure Mr. Boggs analyzed involved combining Lake Holiday Utilities, Whispering Hills Water Co., and Westlake Utilities to form its own division and combining the remaining nineteen water divisions into the Consolidated Group. In this scenario, the Lake Holiday, Whispering Hills and Westlake group would benefit by requiring a lower BFC and Usage Charge to recover the Company's proposed revenue requirement for the three divisions that make up this group. However, the Consolidated

Group would require a significant increase in both its BFC and Usage Charges from those the Company initially proposed.

The third rate structure scenario that Mr. Boggs explored involved removing Galena Territory from the Company's proposed Consolidated Group. Galena Territory was the individual water division that (aside from the three divisions already removed from the Consolidated Group as discussed earlier in this brief) had the largest monthly bill percentage increase if the division would be consolidated into one rate structure compared to what it would be under a stand-alone rate structure assuming no rate consolidation. In this scenario, Galena Territory would have a larger BFC than it would if it remained in the Consolidated Group as proposed by the Company, but the Usage Charge would be less. The rest of the Consolidated Group, however, would have a larger BFC than the Company originally proposed for a 5/8" meter customer if the Galena Territory division remained a stand-alone division and all other divisions were consolidated. Id. at 11:206-12:228.

Based on his analysis, Mr. Boggs concluded that pulling any division out of the fully Consolidated Group as a stand-alone group might mitigate the rate impacts to the stand alone group, but the remainder of the Consolidated Group would have more significant rate impacts. However, this must be weighed against the fact that, for all the water divisions, large capital improvements could be spread among a larger base of customers when it becomes necessary to update infrastructure to provide safe and reliable water service. Consolidation would also mitigate the impact of rate case expenses if the Company has to file for only a single division rather than twenty-two different water divisions. When rate case expenses and infrastructure improvements are

necessary, significant rate increases to fund these improvements could prove quite burdensome for the small number of customers in individual, smaller water divisions. Thus, Mr. Boggs believes the long-term benefits of consolidation outweigh its costs. Id. at 12:230-13:250.

GTA/WVLP/Westlake argue that “by establishing statewide rates that exceed the stand-alone cost to serve customers, USI’s rates to GTU and WUI customers are neither just nor reasonable.” (GTA/WVLP/Westlake IB, 8.) Under the Act, the determination of whether a rate is just and reasonable does not solely depend upon a cost analysis as GTA/WVLP/Westlake argue. GTA/WVLP/Westlake fail to recognize that the Act allows the Commission to consider factors other than costs when designing rates. Under the Act, one of the goals and objectives of regulation is to consider equity. 220 ILCS 5/1-102(d). Equity is the fair treatment of consumers and investors. Id. Equity involves not just considering the cost of supplying service so that it is allocated to those who cause the costs, 220 ILCS 5/1-102(d)(iii), but it can include factors other than cost of service. 220 ILCS 5/1-102(d)(iv) (*stating* “if factors other than cost of service are considered in regulatory decisions, the rationale for these actions is set forth”).

Company witness Mr. Steven Lubertozi and Staff witness Mr. Christopher Boggs provided equitable justification for the Commission to approve a single consolidated rate rather than stand-alone rates, as argued for by GTA/WVLP/Westlake. Mr. Lubertozi testified that consolidated rates are common place for other regulated entities like gas and electric. (USI Ex. 1.0, 13:281-282.) He explained the benefits of costs being spread over a larger base that in the end benefits customers and can protect customers from rate shock. He pointed out that the small stand-alone utilities would be able to have significant

capital improvements spread out over a larger base. He further testified that consolidated rate will strengthen USI and allow customers to benefit from fewer rate cases and lower rate case expense. Id., 282-288. Staff witness Christopher Boggs agreed in general with Mr. Lubertozzi's testimony on this issue. (Staff Ex. 4.0, 5:87-93.) Mr. Boggs recognized that pulling any division out of the fully Consolidated Group, as a stand-alone group, does mitigate the rate impacts to the stand-alone division as compared to including that division in the Consolidated Group. However, he pointed out that the remainder of the Consolidated Group would then have more significant rate impacts. Id., 13:232-235. Mr. Boggs testified that stand-alone rates must be weighed against the fact that with a single consolidated rate for all the water divisions, large capital improvements could be spread across a larger base of customers when it becomes necessary to update infrastructure that provides safe and reliable water service. Mr. Boggs agreed with Mr. Lubertozzi that consolidation also would mitigate the impact of rate case expenses if the Company has to file for only a single division rather than twenty-two different water divisions. He further testified that when rate case expenses and infrastructure improvements are necessary, significant rate increases to fund these improvements could prove quite burdensome for the small number of customers in individual, smaller water divisions if there was no single consolidated rate. Id., 235-244. For example, he pointed out that on page 8 of USI Ex. 3.3, the Company projects nearly \$611,000 in capital improvements in 2015 for the Ferson Creek division. Spreading those costs among the 381 customers in the division would have a more significant impact on the monthly bills of those 381 customers than it would if the costs were spread out over approximately 11,600 customers in the

Consolidated Group. (Staff Ex. 4.0, 13:244-249.) It was Mr. Boggs's opinion that, in the long run, the benefits of consolidation outweigh its disadvantages. Id., 249-250.

GTA/WVLP/Westlake quote many comments made by GTA and Westlake Utilities, Inc. ("WUI") customers recorded on the Commission's website arguing that customers do not understand the proposed increases and that the rates are unreasonable, and to help those customers better understand the increases and utility charges, they should be phased in over several rate cases, eventually culminating in a single consolidated rate. (GTA/WVLP/Westlake IB, 9-12.) Putting aside whether a customer stating that he/she does not understand a rate or that he/she believes a rate is not reasonable is a sufficient record basis to justify a phase in light of the equity goal and objective in Section 5/1-102(d)(ii) of the Act, the Commission is free to reject a phase in. It clearly is within the Commission's discretion to approve a single consolidated rate in this case, as the Company proposes and Staff supports. The courts give great deference to the Commission in setting rates. Deference to the Commission is "especially appropriate in the area of fixing rates." (Iowa-Ill. Gas & Electric Co. v. Ill. Commerce Comm'n, 19 Ill. 2d 436, 442 (1960).) A rate is more than a number; it is also a design. The Commission's decision in a rate case does not involve simply what utilities may charge their customers, but how they do so. (The People v. Ill. Commerce Comm'n, 2015 IL 116005 ¶ 23 (*citing City of Chicago v. Ill. Commerce Comm'n*, 13 Ill. 2d 607, 611 (1958) (*holding* "the statutory authority to approve rate schedules embraces more than the authority to approve rates fixed in terms of dollars and cents."))).) With respect to rate design in particular, the courts have held that "because of its complexity and need to apply informed judgment, rate

design is uniquely a matter for the Commission's discretion." (See Central Ill. Public Service Co. v. Ill. Commerce Comm'n, 243 Ill. App. 3d 421, 445 (1993).)

Based upon the above, the Commission should reject GTA/WVLP/Westlake's arguments for a phase in and approve the Company's proposed consolidated rate structure.

Staff recommends that the Commission approve the Company's proposed consolidated rate structure that includes all twenty-two water divisions. Staff also recommends a consolidated structure that includes all of the Company's nine sewer divisions into one consolidated service division. Id. at 13:252-14:256.

b. Inclusion of Oakwood in Rate Design

In the Company's direct testimony, the Company included Oakwood in the Consolidated Group's revenue requirement even though Oakwood's rates remain unchanged because of the rate freeze in the acquisition agreement approved by the Commission in Docket No. 13-0564. Staff, likewise, included Oakwood in the Consolidated Group's revenue requirement in its direct testimony. Because Oakwood is included in the total revenue requirement, but its rates are not revised to reflect that revenue requirement, Oakwood would in effect be subsidized by the Consolidated Group. The Company purchased the Oakwood division's water and wastewater operations through an Asset Purchase Agreement from the Village of Oakwood dated September 9, 2013. The transaction was approved by the Commission through a Certificate of Public Convenience and Necessity in Docket No. 13-0564 on March 19, 2014. Under the Asset Purchase Agreement, the Company agreed to continue to charge the current rates for a period of two years. Thereafter, rates were to be charged consistent with the Company's consolidated rate schedule as approved by the Commission.

Mr. Boggs suggested two alternatives to address Oakwood's subsidization by the Consolidated Group. The first suggestion was that Oakwood could be removed from the Consolidated Group's revenue requirement and rates entirely. This would ensure that the Consolidated Group's rates reflected only the Consolidated Group's revenue requirement. A second alternative is suggested by the Company in its response to Staff DR RWB 11.01 and the Supplemental Response to Staff DR RWB 11.01. Under this alternative, the Company would seek to unify the Oakwood service area rates and revenue requirement with the rest of the Consolidated Group when the restriction on rates charged to customers in the Oakwood service expires. This would be accomplished by leaving Oakwood in the Consolidated Group's revenue requirement, calculating consolidated rates for all USI customers including Oakwood, but not applying the Consolidated Group's rates to Oakwood customers until March 10, 2016 when the rate freeze expires. Oakwood customers would continue to pay the current Oakwood rates until March 10, 2016. This would create a revenue requirement shortfall with respect to the Oakwood rates until March 10, 2016. The Company indicates that this shortfall would be a shareholder expense and would not be passed on to customers. While both alternatives would adequately address the subsidization issue, the alternative suggested by the Company, which would add the Oakwood service territory to the rest of the Consolidated Group would provide certain advantages. (USI Ex. 13.0, 5:102-6:7.)

The largest advantage that the Oakwood service area water customers would realize from being included in the Consolidated Group is having a larger customer base to spread capital improvement costs over when large infrastructure investments and repairs are needed. In addition, the Usage Charge would decrease by \$0.01 per 1,000

gallons. Moreover, the Company would not have to come in for another rate case in a year to determine the rates that would be needed to recover the new revenue requirement for the Oakwood service area. With only 737 water customers, rate case expense for those customers would further increase the rates that would be needed to recover the revenue requirement that will eventually be determined. (Staff Ex. 9.0, 7:98-107.)

The chief advantage to all Oakwood sewer customers from consolidation is the ability to spread future capital expenses and rate case expenses over a larger group of customers, thereby mitigating future bill impacts. In addition, the sewer rates would also decrease by \$2.45 per month on a flat-rate basis. Id. at 8:117-121.

VI. OTHER

A. Uncontested Issues

1. Elimination of Purchased Water and Purchased Sewer Surcharges

The Company proposed to eliminate all of its purchased water surcharges and purchased sewer surcharges and to include the costs of all purchased water and purchased sewer services within base rates. Inclusion of the costs of all purchased water and sewer services within base rates is consistent with the Company's proposal to establish a consolidated rate structure for its customers, and eliminates the need for annual purchased water and purchased sewer reconciliation proceedings. (USI Ex. 1.0, 12-13; USI Ex. 2.0, 7-8.) Staff recommends the Commission approve the Company's proposal to eliminate its purchased water and purchased sewer surcharges, subject to Staff's proposed Order language and Commission approval of a new transition/clean up tariff which provides for the final reconciliations of purchased water and purchased sewer

surcharges, discussed in Section VI.A.2, below. (Staff Ex. 1.0, 17-19; Staff Ex. 7.0, 11-14.) The Company agrees with Staff's conditions. (USI Ex. 7.0, 10-11.)

2. Final Reconciliations of Purchased Water and Purchased Sewer Surcharges

As discussed in Section VI.A.1 above, Staff recommends the Commission approve the Company's proposal to eliminate all of its purchased water surcharges and purchased sewer surcharges, subject to Staff's proposed Order language and approval of new transition/clean up tariffs which provide for the final reconciliations of purchased water and purchased sewer surcharges. The Company agrees with Staff's recommendations and conditions. (USI Ex. 7.0, 10-11.)

In the event that the Commission approves the Company's proposal to eliminate all of its purchased water surcharges and purchased sewer surcharges and to include the costs of all purchased water and sewer services within base rates, the Commission should adopt the following Staff recommendations:

- A. The final order in this proceeding should authorize and require USI to include with its compliance filing in this proceeding tariff sheets consistent with the proposed language on page 12 of Staff Exhibit 7 that:
 - (i) provide a mechanism for the reconciliation of purchased water and sewer costs and revenues for any reconciliation periods that have not yet been considered by an order of the Commission,
 - (ii) provide a mechanism for the refund or recovery of any cumulative (over)/under recovery determined from those reconciliations, and
 - (iii) provide for the disposition of any Factor Os ordered by the Commission that result from the proceedings to reconcile the revenues and expenses of each surcharge that have not yet been considered by the Commission at the time an order is entered in this proceeding;

- B. The final order in this proceeding should require the Company to file, within 90 days of the final order in this proceeding, a petition for a final reconciliation of the USI purchased water and purchased sewer surcharges for the year 2015 up to the effective date of new tariffs filed in compliance with the final order in this proceeding; and
- C. The final order in this proceeding should include the following language in the Ordering paragraphs:

IT IS FURTHER ORDERED that within 90 days of the date of this Order, USI shall for the period from January 1, 2015, through the effective date of new tariffs filed in accordance with this Order, file a final reconciliation of its purchased water and purchased sewer surcharges, along with a petition requesting approval of said reconciliation which includes testimony and schedules that support the accuracy of the costs and charges for the period being reconciled.

3. Proposed Depreciation Rates

USI witness John F. Guastella provided a depreciation study utilizing comparable data for average service lives, net salvage values, depreciation rates of other water and sewer utilities, as well as state and industry guidelines. (USI Exhibit No. 4.0, 6:122-26.) Mr. Guastella proposed separate water and sewer depreciation rates for each primary account. (USI Exhibit No. 4.0, Schedules JFG-1 and JFG-2.)

Staff witness Jonathan M. Sperry did not object to the Company's depreciation study or the proposed depreciation rates. (Staff Ex. 6.0, 5:104-7:141.)

4. Maximum Allowable Unaccounted-for Water Percentage

USI witness Dimitry I. Neyzelman proposed to combine all of the Company's existing percentages of maximum unaccounted-for water, without changes, into a single tariff sheet for all its service areas. (USI Ex. 2.0, 11:238-39.)

Staff witness Jonathan M. Sperry recommended that the maximum level of unaccounted-for water for the four territories (Clarendon, Great Northern, Walk-Up Woods, and Westlake) be reduced to 15% in USI's revised Schedule of Rates and Charges tariffs for water service. (Staff Ex. 6.0, 9:188-92.)

Mr. Neyzelman incorporated Staff's recommendation in the revised tariff sheets filed with his rebuttal testimony. (USI Ex. 7.1.)

5. Other Tariff Change Proposals

In anticipation of the Commission's approval of the Company's consolidation proposals, the Company has proposed the following changes to its tariffs. In its Unaccounted for Water tariff, the Company condensed the existing percentages applicable to the various service divisions into a single sheet (ICC No. 3, Original Sheet No. 4.). In its Schedule of Rates tariff, the Company has created uniform miscellaneous charges that it derived from its current tariffs in each service territory. The Company also proposes to change all service divisions to a monthly billing cycle. This will make all the service divisions' billing cycles consistent with each other and with the billing cycles that the Commission has been approving in recent individual rate cases for the utility company's predecessor. (Staff Ex. 4.0, 34:694-700.)

Staff recommends that the Commission approve the Company's tariff change proposals. Doing so will make the tariffs uniform if the Commission approves the consolidated rate structure. Even if the Commission does not approve the consolidated rate structure, approving the proposed tariff changes would add consistency and uniformity to each service division's individual tariff. Therefore, the Company's proposed changes are reasonable. Id. at 35:703-708.

B. Contested Issues

1. **None.**

Respectfully submitted,

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